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## Honduras

## Coffee Annual

## 2011

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**Report Highlights:**

Honduras ranks first in Central America, third in Latin America, and seventh globally in coffee exports by volume. Honduran coffee production in 2011/2012 is forecast at 3.9 million 60 kilograms (kg) bags. Coffee exports for 2011/2012 are forecast at 3.5 million 60 kg. bags. Production for 2010/2011 is estimated at 3.9 million 60 kg. bags. Exports for 2010/2011 are forecast to reach 3.5 million 60 kg. bags. Production for 2009/2010 was 3.6 million 60 kg. bags. The historical increase in production and sales stems from the high international price of coffee, increased plantings in recent years, and good growing conditions this year. Exports for 2009/2010 was 3.2 million 60 kg. bags. More than 433,000 60 kg. bags of specialty coffee were produced. For the eight consecutive year, Honduras is participating in the "Cup of Excellence" competition.

## Executive Summary:

Sixty-one percent of Honduran coffee production is grown in the mountains between 2,700 and 3,600 feet above sea level, 23 percent in areas from 3,600 to 4,800 feet above sea level, and 16 percent in areas 1,500 to 2,700 feet above sea level. Coffee is grown in 15 of the 18 states and in 213 out of the 298 municipalities of Honduras. Honduras differs from other coffee-growing countries in the region because of the prevalence of small producers. 85,000 producers who annually produce less than 77 bags of 60 kg. of coffee constitute more than 90 percent of all production in Honduras and contribute to 50 percent of total exports.

The coffee sector provides employment to 30 percent of the population and generates much needed foreign exchange. Two million people directly participate in the coffee harvest. They are paid about US\$71 million, distributed nationwide over a period of four months. Besides picking the beans, there are other activities such as fertilizer application, shade control, cleaning, drying, commercialization, and transport which provide other employment. The importance of coffee's influence on the national economy extends beyond just farm owners. According to the Honduran Coffee Institute's (IHCAFE), approximately 1.2 million people are involved in the coffee sector. There is steady demand for roughly 700,000 on-farm employees annually. This on-farm employment has an average of two workers per "manzana" (1 manzana equals 0.71 of a hectare). Seasonal labor demand is 500,000 workers per year, which is mainly during the harvest season. For the large producers, employed workers provide the labor, while small producers tend to rely more on family members to plant, grow, and harvest coffee. According to IHCAFE's latest data, coffee accounts for 32 percent of total Honduran exports and the 2010-2011 sales should equal about 7 percent of the country's gross domestic product.

Coffee production and exports for the coming years are estimated to increase by the IHCAFE. The 2011/2012 harvest is forecast at 3.9 million 60 kilogram (kg) bags. The production estimate for 2010/2011 increased to 3.9 million 60 kg. bags. Production in 2009/2010 was higher, compared to the record production of the previous year. The forecast export in 2011/2012 is 3.5 million 60 kg. bags. Exports in 2010/2011 are estimated at 3.5 million 60 kg. bags. Exports in 2009/2010 were 3.2 million 60 kg. bags. IHCAFE's estimates of increase in production and exports are due to the upward international prices of coffee that are motivating producers to use more inputs and improve their work to increase yields. In addition, higher prices are motivating landholders with other crops or in other professions to convert larger portions of their lands to coffee growing.

Export value for the 2009/2010 harvest reached US\$606 million, which was 31 percent higher than the earnings from the 2008/2009 harvest. The average New York Coffee Stock Exchange price for the 2009/2010 harvest was US\$147 per 46 kg. bag compared to the average price of US\$118 in 2008/2009.

During 2009/2010 exports of specialty, certified, and organic coffee were more than 433,000 60 kg. bags. This is 14 percent of total coffee exports. Roughly 260,000, 60 kg. bags were not registered as exports through official channels, with much of the coffee being exported through contraband channels to Guatemala and Nicaragua. For eight consecutive years Honduran producers have participated in

regional coffee quality competitions to be in the international “Cup of Excellence” auction.

### **Production:**

The new data from IHCAFE suggests that the 2011/2012 harvest is expected to reach 3.9 million 60 kg. bags. Production for the 2010/2011 harvest is estimated at 3.9 million 60 kg. bags, two percent higher than the 3.8 million 60 kg bags estimated in the previous report.

Production for the 2009/2010 harvest was 3.6 million 60 kg. bags, three percent higher than estimated. The historical increase in production was due to Honduran producers being more motivated by the high international price of coffee. Producers used more inputs such as the application of the fertilizer, the provision of new seeds, the improvement of planting density, and soil conservation in an attempt to increase yields and production levels. In addition, higher prices are motivating landholders in other crops or professions to convert larger proportions of their land holdings to coffee production. An estimated 10,000 new coffee producers have entered the market in 2010/2011 resulting in a total of about 101,000 coffee farm operators in the country. This is equivalent to a 10 percent increase in the number of coffee producers.

Honduras differs from other coffee-growing countries in the region because of the prevalence of small producers. 85,000 producers—who annually produce less than 77 60 kg. bags of coffee—constitute more than 90 percent of all production in Honduras and contribute to 50 percent of total exports.

IHCAFE maintains a trust fund to buy fertilizers and sells them at a discount and on credit with payment not due for one year. The trust fund also provides financial assistance for maintenance and renewal of coffee farms. About 87,000 coffee producers participate in this program.

Coffee producers have expanded and renew the planted area with the price incentive. There is an estimate of five percent rise in planted area. The bearing and non-bearing trees remain steady. This is due to the cycle that a coffee plant takes to become productive.

Production of "value-added" coffee is also increasing. More than 433,000 60 kg. bags of specialty, certified, and organic coffee were produced in 2009/2010. This is a 92 percent increase in production from the previous year. The production was under programs such as Utz Kapeh Certified, Organic/Fair Trade, Rain Forest Alliance, Fairtrade, Cafe Practices and others. Honduras established in 2005 the Denomination of Protected Origin (DOP) Marcala in order to guarantee and preserve the quality of the coffee produced in the Marcala region.

### **Consumption:**

According to new data from IHCAFE, domestic consumption is generally ten percent of total production. Consumption per capita in 2009 was 3.77 kg per person. This is a 56 percent increase from the previous year (2.41 kg. per person). The increase in consumption can be tied to the growing

presence of coffee bars located in shopping malls, main business streets, supermarkets, and hospitals. A wide range of the Honduran population is young and these Hondurans are consuming more and different types of coffee, e.g., "frozen" coffee drinks. Particularly, these coffee bars specialize in providing customers with free wireless internet service, which especially attracts high school and university students. In addition, Honduran coffee roasters have more aggressively purchased domestic beans because of their availability, high international market prices, and the fervor to export.

## **Trade:**

Coffee exports for 2011/2012 are forecast at 3.5 million 60 kg. bags. Exports for 2010/2011 are estimated at 3.5 million 60 kg. bags as well. IHCAFE estimates the price incentive will continue to support an increase in exports. Coffee exports were 3.2 million 60 kg. bags in 2009/2010. It should be noted that this data does not include coffee exports that are not registered through official channels. The amount is about 260,000 60 kg. bags that are exported to Guatemala and Nicaragua. The coffee sent to Guatemala is quality coffee, while the coffee sent to Nicaragua is coffee of lower quality but obtains attractive prices nonetheless.

Export value for 2009/2010 reached US\$ 606 million. This was 31 percent higher than the earnings from the 2008/2009 harvest with record production. Exports to Germany, Belgium, the United States (U.S.), Italy, France, South Korea, Japan, Sweden, and Holland represented 88 percent of total shipments. The greatest volume (32 percent) was exported to Germany, and the U.S. was the number three destination accounting for 15 percent of total exports. Honduras exported coffee to 37 countries. The average export price in the 2009/2010 harvest was US\$147 per 46 kg. bag compared to the average price of US\$118 in 2008/2009.

According to data from the Honduran Central Bank, imports of roasted and soluble coffee for domestic consumption came mainly from the United States. Other coffee exporters to Honduras are Mexico, Guatemala and Nicaragua. Post expects that competition to U.S. supplied coffee will be greater as Mexican and Central American companies sell their soluble coffee in machines located at commercial centers and office buildings.

For the eighth year running, IHCAFE is organizing the "Cup of Excellence" competition. This promotional event brings together the best Honduran coffees which are sold worldwide via electronic auction. Through this competition, Honduras finds niche markets for its coffee. In 2009/2010 more than 433,000 60 kg. bags were produced under the programs of Utz Kapeh Certified, Organic/Fair Trade, Rain Forest Alliance, Fairtrade, Cafe Practices, and DOP "Marcala".

The flow of contraband coffee going to Guatemala and Nicaragua is estimated at 260,000 60 kg. bags. This unregistered flow is stimulated by the need of some growers to receive cash rapidly for their unprocessed product. Intermediaries help in the commercialization by taking the harvest out to the road. Some intermediaries live in the same area of production and provide funds to the producers for personal expenses or for basic needs such as food.

Another reason for this unregistered trade is the existence of an alternate market. Honduran coffee sellers obtain a higher price if they do not sell it in the formal market: If producers sell their coffee through the formal market, according to law, they face a deduction of US\$9.00 per quintal (100 pounds). However, the volume sold within the alternate market notably declined by roughly 60 percent during the 2010/2011 harvest. The decrease was due, in part, to importers being more aware of the quality coffee that it is being produced in Honduras which has increased demand within the formal market.

### Export Trade Matrix

<b>Country</b>	Honduras		
<b>Commodity</b>	Coffee, Green		
Time Period	MY	Units:	60 Kg. Bags
Exports for:	2010		2011
U.S.	436,652	U.S.	436,652
Others		Others	
Germany	914,064		914,064
Belgium	468,246		468,246
Italy	182,541		182,541
S. Korea	159,148		159,148
France	126,996		126,996
England	85,497		85,497
Sweden	69,868		69,868
Japan	60,013		60,013
Total for Others	2,066,373		2,066,373
Others not Listed	1,022,975		1,022,975
Grand Total	3,526,000		3,526,000

### Stocks:

Stocks during 2009/2010 decreased from the estimated amount in light of the increase in exports. Coffee beans stored by the roasters are only toasted upon request. Roasters keep the remaining beans for domestic consumption. The coffee might also be sold to other Central American countries throughout the year.

### Policy:

The Honduran Government (GOH) privatized IHCAFE in 2000. The privatization was done in order to rationalize the coffee sector. At the same time, the National Council of Coffee was created. IHCAFE is the specialized institution in Honduras that works with all aspects of coffee production, harvesting, and exporting. IHCAFE provides guidelines and implements projects to increase production and to improve the quality of Honduran coffee. It also establishes commercialization procedures and controls coffee production and exports. As part of those controls, exporters must register with IHCAFE the coffee which they buy from growers and the coffee which they export. Subsequently, IHCAFE issues

exporters the export permits. The Board of Directors of IHCAFE includes coffee growers, coffee roasters, exporters, and representatives from the Ministry of Agriculture and Ministry of Industry and Trade.

During the years of the coffee crisis, due to low international prices, the GOH obtained a loan for US\$20 million to be paid over 20 years. Through the loan, funds supported all coffee producers in 2002. Due to the high level of indebtedness of many growers, the GOH created the Law of Financial Reactivation of the Coffee Sector in 2003. This law facilitated the creation of the coffee trust fund in 2004, which receives the financial contribution of coffee growers.

The grower's contribution is obtained through the deductions that the exporter or intermediary makes when they buy the grower's coffee. One of the deductions is for US\$9.00 per quintal (100 pounds). This deduction is transferred to IHCAFE, which in turn transfers it to the trustee banks. This deduction is returned to the producer in 60 days. The US\$9.00 contribution is assigned to pay off the US\$20 million loan over the next 15 years.

The other mechanism to obtain funds is through an exporter deduction of US\$3.25 per purchased quintal. Out of the US\$3.25, approximately US\$0.50 is applied to the repayment of the US\$20 million loan, and the balance is distributed with 36 percent going to the operation of IHCAFE and 64 percent to the Coffee Fund. The Coffee Fund uses those resources to build and fix roads in coffee production areas, and to buy equipment for coffee producers.

To exemplify some of the benefits of the trust fund, IHCAFE used part of the trust fund to increase productivity and to lessen the impact of fertilizer prices on coffee producers. IHCAFE bought fertilizer used by producers and sold it to them at a lower-than-market price. The fertilizer was sold to coffee producers for cash or on credit with payment due in a year. This program supports an increase in production and also helps hold down the overall commercial price of fertilizer. The trust fund also provides financial assistance to purchase equipment and seeds, as well as offers technical assistance through education programs on crop diversification and irrigation methods.

In addition to its fertilization program, IHCAFE has implemented the Innovative Coffee Producer Project, the Coffee Regionalization project, the Coffee Rehabilitation Project, the Productive Diversification Project, and the Agro Forestry and the Community Forestry Programs. In addition, IHCAFE has created the National Center of Quality and the Superior School of Coffee.

Through these projects and programs, IHCAFE is introducing new ways to add value, to develop specialty coffee, and to find niche markets. Coffee producers are also provided technical assistance to diversify their farm production by growing precious woods, and including food products such as avocado, fruits, fish, poultry or bees.

#### **Production, Supply and Demand Data Statistics:**

Coffee, Green Honduras	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Oct 2009		Market Year Begin: Oct 2010		Market Year Begin: Oct 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post

Area Planted	243	270	0	283		297
Area Harvested	230	256	0	269		282
Bearing Trees	1,049	1,049	0	1,049		1,049
Non-Bearing Trees	141	141	0	141		141
Total Tree Population	1,190	1,190	0	1,190		1,190
Beginning Stocks	43	43	33	74		46
Arabica Production	3,350	3,565	3,500	3,910		3,910
Robusta Production	0	0	0	0		0
Other Production	0	0	0	0		0
Total Production	3,350	3,565	3,500	3,910		3,910
Bean Imports	0	0	0	0		0
Roast & Ground Imports	8	8	8	8		8
Soluble Imports	7	7	5	7		7
Total Imports	15	15	13	15		15
Total Supply	3,408	3,623	3,546	3,999		3,971
Bean Exports	3,175	3,160	3,300	3,526		3,526
Rst-Grnd Exp.	0	35	0	35		35
Soluble Exports	0	0	0	0		0
Total Exports	3,175	3,195	3,300	3,561		3,561
Rst,Ground Dom. Consum	200	345	200	383		383
Soluble Dom. Cons.	0	9	0	9		9
Domestic Use	200	354	200	392		392
Ending Stocks	33	74	46	46		18
Total Distribution	3,408	3,623	3,546	3,999		3,971
Exportable Production	3,150	3,211	3,300	3,518		3,518
TS=TD		0		0		0